YOUR GUIDE TO RETIREMENT LIVING

APRIL 2006

YOUR RETIREMENT ADVISOR

MUST-KNOW FACTS ABOUT THE NEW MEDICARE DRUG PROGRAM

Since January 1, 2006, Medicare has provided a prescription drug benefit to beneficiaries who have enrolled in the program known as Medicare Part D. The good news is that the new benefit may save you a lot of money on prescription medications. The challenge can be finding the right plan. In fact, a recent survey by the Kaiser Family Foundation found that only 34% of adults 65 years or older said they understood the program somewhat or very well.

The confusion is certainly understandable. In most states, seniors can choose from more than 40 Medicare drug plans that often differ significantly from one another in terms of costs and features. For example, some plans just cover prescriptions while others are managed-care plans with prescription coverage.



And unlike Medicare Part B, where everyone pays the same monthly premium, the monthly payment for the drug plans can vary widely—anywhere from less than $10 per month to more than $100. Other differences include whether there is an annual deductible and even what you pay for a given drug at the pharmacy counter. Also, the standard drug plan has a gap in coverage where you pay for all drugs yourself, known as the "doughnut hole."

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So what should you know before choosing a Medicare prescription drug plan? The Kaiser Foundation, AARP and other senior advocates say it's important to note the following:

- **Different plans will cover different drugs.** All plans are required to cover at least two drugs within each category of drugs for a medical condition, but which drugs they select will vary. So the essential first step is to make a list of the medications you currently take and compare the plans to see which ones cover them.

- **If you take brand-name drugs, you may also want to contact the plans you are considering to find out whether they have any restrictions on those drugs.** To control costs, insurers may limit the length of a prescription, require you to try the least expensive drug in a category first, or require your doctor to get permission to prescribe certain drugs.

- **If none of the plans seems to cover all of the drugs you take, talk to your doctor.** Often there are similar, equally effective drugs that may be covered.

- **Make sure your favorite pharmacy is among a plan's participating providers.** Your prescriptions will be more expensive if you go to a non-participating pharmacy.

- **If you live in more than one state during the year, consider the convenience of one of the national plans.** Or find a plan that offers mail-order services—but make sure they are willing to send your medications to a second address.

- **If you're going to join, do so when you first become eligible.** Anyone who is already eligible for Medicare, and whose current drug coverage is not as good as the new Medicare coverage, should enroll before May 15, 2006. Otherwise, you risk paying a higher premium for the life of the plan.

- **While it may seem easier to choose the same plan for you and your spouse, there's no real benefit to doing so.** In fact, unless you take all the same medications, it's best to evaluate your choices independently so you each get your own optimal plan.

- **Since the launch of the new program, there have been numerous problems with verifying participants' eligibility.** So be prepared and bring your plan's identification card the first time you visit a pharmacy. If you haven't received it yet, bring an acknowledgement letter or some other written documentation from the plan provider, as well as your Medicare or Medicaid card.

If you need help making the decision, you can call **1-800-MEDICARE (800-633-4227)** or try *www.medicare.gov*, for tools that will help you determine the right plan for you.

Finally, remember that you don't have to choose a Medicare prescription plan. Participation is completely voluntary. But it's certainly worth considering—both for the savings you may get now and the protection you will have against rising prescription costs in the future. ■

WILL YOU FACE A SOCIAL SECURITY TAX BILL?

You probably expect to pay taxes on your retirement income: the money you withdraw from a 401(k) plan or a traditional IRA, stock dividend payments and bond payouts, and certain income from pensions or annuities. You probably *don't* expect your Social Security benefits to be taxed—but there's a good chance they will be.

The reason: a law passed back in 1983, which aimed to shore up the Social Security trust fund by placing a levy on high-income seniors' benefits. The law did not account for inflation—so as retirees' incomes grow to keep pace with rising prices, more and more Social Security recipients find their incomes exceeding the threshold that triggers taxes on their benefits.

To determine whether you're likely to get hit by the tax, start by adding up all your taxable income, including any wages, pension payments and investment/dividend income. Then add to that number half of your Social Security benefit for the year, your total tax-exempt interest income and certain other tax-exempt income (see chart below).

For example, say you earned no wages last year, but you did receive a $20,000 pension and $3,000 in dividend payments, plus $2,000 in tax-exempt interest income and $10,000 in Social Security benefits. You'd add your pension, dividend income and tax exempt interest (for a total of $25,000), and then tack on half of your Social Security benefit ($5,000), for a total amount of $30,000.

If you're a single filer and your total is between $25,000 and $34,000, you'll have to pay income tax on half of your Social Security benefit. If the sum exceeds $34,000, you'll be taxed on 85% of your Social Security benefit. Married filers trigger the lower rate at just $32,000, and the higher rate at $44,000.

A number of other factors can affect the precise amount of the tax, so it's a good idea to consult a financial professional. If you do your taxes by hand, you'll have to complete an 18-step worksheet that determines exactly how much of your Social Security benefit is taxable. Tax software programs calculate these taxes automatically.

You have several options if you're socked with a tax bill that you're unprepared for:

Withdraw money from savings accounts. Taking cash out of bank savings or money market accounts allows you to pay your tax bill without selling investment securities and potentially triggering higher taxes next year. Just be sure you leave enough in these liquid accounts to cover any emergencies.

Withdraw money from taxable investment accounts. This move may force you to liquidate investments, potentially resulting in a greater tax bill the following year.

Withdraw money from retirement

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SOCIAL SECURITY TAX FACTS

If you file your taxes…	and your taxable income plus half your Social Security benefit totals:	the following percentage of your Social Security benefit is taxable:
as a single	<$25,000	0%
	$25,000 to $34,000	50%
	>$34,000	85%
jointly	<$32,000	0%
	$32,000 to $44,000	50%
	>$44,000	85%

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accounts. Removing money from your tax-advantaged savings accounts is likely to reduce the lifespan of your nest egg.

File IRS Form 9465. This form allows you to pay your taxes on an installment plan. You can name a monthly payment size that works for you, as long as it puts you on track to pay off your bill within five years. The IRS charges filers a one-time $43 fee, and you'll have to pay interest on your outstanding balance.

Before deciding how to pay off your tax bill, you may want to consider consulting with a financial professional. ■

QUICK MONEY TIP

CABIN (SALES) PRESSURE

Sure, we know that airlines lost almost $5 billion last year. And with the outlook still bleak, airlines keep coming up with more ways to charge fliers. Several major airlines, including American and Northwest, recently started charging $2 to check your bags at the curb at some airports. Want a pillow? On Air Canada flights, it will cost you $2. Our advice? Stick with the low-cost airlines, which are in better financial shape. JetBlue still offers snacks and free satellite TV. And Southwest recently sent out a press release trumpeting its free amenities, including pillows, blankets and curbside check-in. ■

Source: *SmartMoney, The Wall Street Journal Magazine* © Hearst Communications Inc. and Dow Jones & Company Inc., New York, New York; March 2006.

LIFE AFTER SIXTY



My granddaughter Jessie goes to a Catholic school. (She's in the first grade.) One day the priest came to her class to talk—and he ended up talking for a while. Afterwards he said, "I think we should have a prayer now." Jessie stood up and said, "I really would rather have a sandwich."

–contributed by Audrey Zanco
Olympia Fields, IL ■

Heard a good joke in the aging category lately? Maybe you have a funny story to tell that doesn't involve your grandchildren (although we love those stories and welcome them all the same). We'll pay $50 for one we decide to publish. Original material preferred; complete source information needed otherwise.

WRITE TO US

RETIREMENT ADVISORS DEPT.

Got questions about Social Security, Medicare, insurance or any other aspect of retirement living? Write to Ruth Anderson at the address above or e-mail her at RuthAnderson@hearst.com. She'll send you answers — FREE.

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